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SUBJECT: BUDGET EXECUTION CHALLENGES IN MUTHANNA PROVINCE

¶11. (U) This is a PRT Muthanna Reporting Cable.

¶12. (SBU) Summary: Current budget execution difficulties in Muthanna are caused by insufficient training, a shortage of certified accountants working for the government, a lack of clear guidance from Baghdad, and funding delays from the Ministry of Finance in Baghdad. The PRT is working to address issues that can be solved by training. Delays in allocation releases from Baghdad to the province remains the single most critical roadblock to budget execution. End summary.

¶13. (SBU) PRT Muthanna's assessment of the state of budget execution in the province has identified four major challenges: insufficient training, not enough certified accountants working for the government, a lack of clear guidance from Baghdad, and funding delays from the Ministry of Finance in Baghdad.

¶14. (SBU) Insufficient Training: When the British-era accounting system (circa 1940) was abolished by the Coalition Provisional Authority, the system was replaced by a new computerized financial management system. This new system continues to cause the province's professional civil servants problems as it is far more complicated than the previous journal/ledger method. This is an issue that the PRT is currently attempting to address through the Local Governance Program (LGP). LGP training is currently focused on financial management, accounting, and capital project tracking.

¶15. (SBU) Not Enough Certified Accountants: The period of civil unrest and violence after the fall of the former regime led to a "brain drain" of skilled workers as professionals with portable skills left Muthanna. As a result, there is a shortfall of certified or otherwise qualified accountants to oversee budget execution. This problem, not unique in Iraq, is compounded in Muthanna, since less than 8.5 percent of the local population has a technical diploma, bachelor's degree, or higher education, according to the Provincial Council.

¶16. (SBU) Lack of Clear Guidance from Baghdad: Local officials complain that guidance on budget issues and spending directives from the Ministry of Finance is not always clear. This leaves provincial managers to interpret guidance on their own, leading to haphazard and inconsistent spending decisions.

¶17. (SBU) Delay of Funds: One of the Muthanna's greatest problems is the slow rate of allocation from the GoI/Ministry of Finance to the province. By October the Ministry of Finance had only released 40 percent of the budget to the province for expenditures. Although this is twice the 20 percent allocation reported in the late July Treasury report, it is difficult to finish projects and pay contractors when the allocation is so slow in coming from Baghdad. (Note: Muthanna, like many other provinces, currently has its entire 2008 budget obligated by way of signed contracts for capital projects. End note.)

18. (SBU) PRT Comment: Among these, delays in releasing funds allocated to the province is the most critical roadblock to budget execution. A necessary precondition for effective budget execution is actually having the funds on hand. However, even if the entire allocation was released from Baghdad immediately, it is highly unlikely that Muthanna could spend it by the end of the year. This is due, in part, to a lack of budget planning and execution expertise, but exacerbated due to the previously slow release of funds. Releasing this current logjam would spur greater budget execution at a provincial level. While this alone would not solve all of Muthanna's budget execution problems, it would be a step in the right direction. In addition, increasing the transparency and predictability of the release of funds from Baghdad would aid in the local budget planning process. End PRT comment.

19. (SBU) Embassy comment: Delays in the central government's release of funds to the province is a complaint common to almost all local officials engaged in budget execution. Both the Ministry of Finance and Ministry of Planning and Development Cooperation are blamed by provincial authorities for refusing to send them budgeted funds in a timely manner. While there is some truth to these complaints, lack of institutional understanding of Iraqi budgetary procedures at the provincial level leads to a failure to adequately report project progress and budget execution to the central government. The Public Finance Management Action Group (PFMAG) is working to facilitate communication between the central government and provinces to resolve this systemic problem. End Embassy comment.

BAGHDAD 00003438 002.2 OF 002

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